

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 4th day of November, by and through the Board of Directors (Board) of Eastern Federal Bank, Norwich, Connecticut, OTS Docket No. 01039 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Association is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its April 27, 2009 examination of the Association, the OTS finds that the Association is operating with insufficient capital levels, an elevated level of high risk loans, increased criticized assets, and poor earnings; and

WHEREAS, in furtherance of their common goal to ensure that the Association addresses the weaknesses and deficiencies identified by the OTS, the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on November 2, 2009, the Association's Board of Directors (Board), at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

High Risk Lending.

1. Effective immediately, the Association shall cease all new High Risk Loan (HRL) lending activity, including, but not limited to, directly or indirectly making, investing in, or purchasing any new HRLs. For purposes of this Agreement, HRLs include all loans made for the purpose of financing construction loans, with the exception of construction loans that qualify as mortgage loans, as defined by 12 C.F.R. § 567.1; commercial real estate loans; commercial and industrial (C&I) loans; and multifamily (structures with more than five (5) dwelling units) loans. This provision, however, does not apply to any lending agreement entered into, but not yet funded, by the Association prior to October 6, 2009.
2. The Association shall be allowed to approve HRL renewals and new HRLs only for existing customers that have an existing HRL relationship that meet the following conditions:
 - (a) the Association has not classified or listed as Special Mention any portion of that borrower's lending relationship with the Association;
 - (b) no part of the borrower's lending relationship with the Association is delinquent with respect to any principal or interest payments;
 - (c) the borrower is otherwise in good standing with the Association; and
 - (d) the loan is not a construction loan as defined in Paragraph 1 of this section of the Agreement.
3. Loans granted or renewed under Paragraph 2 of this section shall be limited to fifty percent (50%) of the prior month's principal reduction of HRLs and the Association must be in compliance with the HRL targets set forth in its Risk Reduction Plan, required under Paragraph 4 of this Agreement, at the time the loan is approved. All HRLs granted or renewed shall be ratified by the Association's Board of Directors.

Risk Reduction Plan.

4. Within sixty (60) days, the Association shall submit a Risk Reduction Plan acceptable to the Regional Director that sets forth the Association's strategy to ensure that its capital levels fully support the Association's risk profile and that the Association maintains the Well Capitalized capital ratios contained in 12 C.F.R. § 565.4(b)(1). At a minimum, the Risk Reduction Plan shall include:

- (a) the timeframes and strategies detailing how the Association will reduce the number and amount of Criticized Assets¹;
- (b) the timeframes and strategies detailing how the Association will reduce its concentration in HRLs;
- (c) realistic or "most likely" economic scenarios and Association performance assumptions that support a projected balance sheet and income statement with quantified short and long-term goals; and
- (d) stressed or "worst case" economic scenarios and Association performance assumptions with projected balance sheets and income statements.

5. Within fifteen (15) days of receipt of written comments, if any, from the Regional Director, the Association shall revise its Risk Reduction Plan based upon such comments. Thereafter, the Association's Board shall adopt the Risk Reduction Plan and ensure that the Association implements and complies with the Risk Reduction Plan. A copy of the Risk Reduction Plan adopted by the Board shall be submitted to the Regional Director within five (5) days of its adoption.

¹ The term "Criticized Assets" includes both the advanced and unadvanced portions of all loans and assets the Association designates as either classified (substandard, doubtful or loss) or special mention.

Allowance for Loan and Lease Losses.

6. Effective immediately, the Association shall charge off all items classified as Loss in the OTS Report of Examination dated April 27, 2009 (2009 ROE) and adjust its Allowance for Loan and Lease Loss (ALLL) in accordance with the ROE.

7. By December 31, 2009, the Association shall review and revise its policies and procedures regarding calculation of the Association's ALLL (ALLL Policy) to ensure that the Association appropriately identifies and reports its ALLL. At a minimum, the ALLL Policy shall conform to generally accepted accounting principles (GAAP) and applicable regulatory requirements and guidance,² be appropriate for the size of the Association and the complexity of its loan portfolio, and include appropriate analysis and support regarding stratification of qualitative factors, including delinquencies, concentrations, and historical loss experience.

Credit Administration Issues.

8. On a quarterly basis, beginning with the quarter ending September 30, 2009, the Association shall ensure that internal asset reviews (IARs) are performed. The IARs shall place emphasis on the Pass/Watch category, Criticized Assets, and the Association's HRL portfolio.

9. On a quarterly basis, beginning with the quarter ending September 30, 2009, the Association shall perform discounted cash flow analyses and record writedowns on all commercial real estate owned based upon such analyses.

10. Effective immediately, the Association shall ensure that the criteria for determining Troubled Debt Restructures (TDRs), including in-substance foreclosures (ISF) designations, conform to GAAP and applicable regulatory requirements and guidance.

² See 12 C.F.R. § 560.160; Section 260 of OTS Examination Handbook (Adequacy of Valuation Allowances); OTS CEO Letter No. 250: Interagency Policy Statement on the Allowance for Loan and Lease Losses And Questions And Answers on Accounting for Loan and Lease Losses (2006 ALLL Policy Statement); and OTS CEO Letter No. 304: ALLL – Observed Thrift Practices Including Sound Practices; and Statement of Financial Accounting Standards (SFAS) Nos. 5 and 114.

11. Effective immediately, the Association shall ensure that adequate borrower, guarantor, and/or business/project financial data and performance information, including interim financial statements consisting of balance sheets and operating statements for all nonhomogenous borrowing relationships, sales/cashflow projections from high risk borrowers, and verifications of liquid assets are maintained. The Association shall also maintain an internal report that monitors the collection and updating of such information.

12. On a monthly basis, beginning with the month ending October 31, 2009, the Association shall submit to the Board a report regarding borrowers exceeding the loan to one borrower limit (LTOB Report). The Board shall review each LTOB Report and ensure that no additional extensions of credit, including, but not limited to, routine overdrafts are made to borrowers that would exceed the LTOB limit and its review of each LTOB Report shall be fully documented in the Board meeting minutes.

Financial Reporting.

13. Effective immediately, the Association shall ensure that all Thrift Financial Reports (TFRs) filed with the OTS are in compliance with all applicable laws, regulations,³ and guidelines.

Liquidity.

14. Within sixty (60) days, the Association shall review and revise its policies and procedures regarding liquidity management (Liquidity Policy). At a minimum, the Liquidity Policy shall include enhanced monitoring, contingency funding plans that address potential events that could affect liquidity, stress testing of various scenarios, and the impact of all brokered deposit restrictions applicable to the Association.

³ See 12 C.F.R. Part 562.

15. In the event that the Association falls below the current Board-approved primary liquidity ratio, or upon any other event that adversely and significantly, or is likely to adversely and significantly, affect the Association's liquidity level, the Association shall advise the Regional Director immediately.

Compliance with 2009 ROE Recommendations.

16. The Association shall ensure that all the matters requiring board attention as set forth in the 2009 ROE are implemented.

17. On a quarterly basis, beginning with the quarter ending September 30, 2009, the Association shall submit a report to the Board and the Regional Director that details the Association's compliance with all of the provisions contained within the Supervisory Agreement.

Brokered Deposits.

18. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits at the Association without receiving the prior written non-objection of the Regional Director. The Association's written request for such non-objection should be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of acceptance of additional brokered deposits.

19. In the event the Association falls below the Well Capitalized capital ratios contained in 12 C.R.F. § 565.4(b)(1), the Association shall comply with the restrictions set forth in 12 C.F.R. § 337.6(b).

Directorate and Management Changes.

20. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁴ set forth in 12 C.F.R. Part 563, Subpart H.

Employment Contracts and Compensation Arrangements.

21. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement related to compensation or benefits with any director or Senior Executive Officer of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement, or a detailed written description of the compensation arrangement to be offered to such director or officer, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 CFR §§ 563.39 and 563.161(b), and 12 CFR Part 570 – Appendix A.

22. Effective immediately, the Association shall not increase any salaries, bonuses, or director's fees or make any other similar payments, directly or indirectly, to the Association's directors or Senior Executive Officers without prior written non-objection from the Regional Director. The Association's written request for such non-objection should be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of such action.

⁴ The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

Transactions with Affiliates.

23. Effective immediately, the Association shall not engage in transactions with any subsidiary or affiliate without the prior written non-objection of the Regional Director, except exempt transactions under 12 C.F.R. Part 223. The Association shall provide thirty (30) days advance written notice to the Regional Director of any proposed affiliate transaction and shall include a full description of the transaction.

Effective Date.

24. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

25. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

26. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

Submissions and Notices.

27. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

28. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To: OTS
Michael E. Finn, Regional Director
Office of Thrift Supervision
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, New Jersey 07311
- (b) To: Eastern Federal Bank
Gerald D. Coia
President and Chief Executive Officer
257 Main Street
Norwich, Connecticut 06360-5827

No Violations Authorized.

29. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

30. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

31. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 31 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

32. The laws of the United States of America shall govern the construction and validity of this Agreement.
33. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.
34. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.
35. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.
36. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

37. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

38. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution

authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Michael E. Finn
Regional Director, Northeast Region

EASTERN FEDERAL BANK
Norwich, Connecticut

By:

_____/s/
Andre J. Messier, Jr. Chairman

_____/s/
Linda M. Adelman, Director

_____/s/
Gerald D. Coia, Director

_____/s/
Joseph A. Fatone, Director

_____/s/
Judy S. Jackson, Director

_____/s/
Jerald I. Navick, Director

_____/s/
Peter H. Shea, Director